

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CLARK RURAL)	
ELECTRIC COOPERATIVE CORPORATION)	CASE NO. 92-219
TO ADJUST ELECTRIC RATES)	

O R D E R

IT IS ORDERED that Clark Rural Electric Cooperative Corporation ("Clark") shall file an original and 12 copies of the following information with the Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. The information requested herein is due no later than September 28, 1992.

1. Concerning the response to Item 2 of the August 12, 1992 Order, state whether Clark has informed the Rural Electrification Administration ("REA") and the National Rural Utilities Cooperative Finance Corporation ("CFC") of the adoption of the equity management plan. Indicate whether any comments or criticisms have

been received from either organization concerning the equity management plan. If yes, state these comments.

2. Concerning the response to Item 4 of the August 12, 1992 Order, provide the excerpt from the mortgage agreement which requires Clark to have an equity level of 40 percent or greater to pay capital credits.

3. Concerning the response to Item 6 of the August 12, 1992 Order:

a. Indicate to what extent the RECCs in the state of Michigan are currently utilizing a TIER indexing program.

b. State whether the Michigan Public Service Commission has promulgated administrative regulations concerning TIER indexing. If yes, provide a copy of these regulations.

4. A review of Michigan Commissioner Anderson's comments, contained in Appendix A of the responses to the August 12, 1992 Order, indicate her objections with TIER indexing related to the Michigan Commission's ability to "[r]eview alleged increases in relationship to overall revenues, revenue requirements, costs of service or any other relevant factors relating to a cooperative's fiscal condition. . .Expense control and review. . .will be nonexistent so long as Southeastern remains on a TIER indexing arrangement." Provide a detailed explanation of how Clark's proposed TIER indexing plan addresses Commissioner Anderson's criticisms.

5. Provide a detailed description of Clark's proposed TIER indexing plan. The description should include, but not be limited to, explanations of:

a. How frequently TIER indexing rate increases could occur.

b. Whether TIER indexing rate increases would be based on a 2.0 or 2.25 TIER.

c. When determining the TIER for a given year, would expenses other than the four used for the multiplier be frozen at the levels determined in this rate case or would TIER reflect the level of expenses actually experienced.

d. Under what circumstances would a general rate case be filed by Clark.

e. When the amount of capital credit rotation would be determined, before or after the determination a TIER indexing rate increase was necessary.

f. How an annual increase in revenue requirements would be calculated under TIER indexing.

6. Concerning the response to Item 6(f) of the August 12, 1992 Order, provide a detailed explanation of why Clark believes it should be entitled to recover more than the actual amount of the increases affecting the four expenses included in its multiplier.

7. In the determination of TIER, interest on long-term debt is a major component. In Clark's proposed TIER indexing plan, interest on long-term debt is included in the determination of the TIER multiplier. Provide a detailed explanation of why Clark has

chosen to double count the impact of interest on long-term debt in the proposed TIER indexing plan.

8. Concerning the response to Item 8(c) of the August 12, 1992 Order, provide copies of all analyses on the feasibility of refinancing Clark's existing CFC loans. Include all supporting workpapers and calculations.

9. Concerning Appendix B of the responses to the August 12, 1992 Order:

a. Provide copies of all supporting workpapers, calculations, and assumptions used to develop the printouts included in Appendix B. If the printouts were developed on LOTUS 1-2-3 spreadsheets, a copy of the computer disc containing the spreadsheets may be supplied in lieu of the requested hard copy material.

b. Explain in detail why the forecasted Statements of Operations, pages 2 and 6 of 9, show no amounts for Other Interest Expense and Deductions beyond the adjusted test year.

c. Page 6 of 9 of Appendix B shows the forecasted statement of operations under TIER indexing. Explain in detail why this forecast shows annual rate increases for each year beginning in 1994, even though the TIER level is above 2.0 for seven years of the forecast and above 2.25 for five years of the forecast.

10. Concerning the response to Item 12 of the August 12, 1992 Order:

a. The National Rural Electric Cooperative Association ("NRECA") Wage and Salary Plan indicates that Clark's present

practice is to grant an annual 4 percent increase on July 1. Indicate how long Clark has followed this practice. For the calendar years 1987 through 1991, indicate the percentage of this July 1 annual increase. Explain how the amount of the increase was determined.

b. The NRECA plan also indicates that Clark has been granting an additional wage increase on January 1. For the calendar years 1987 through 1991, identify the percentage increase awarded to Clark's employees on January 1. Explain how the amount of this increase was determined for each year it was granted.

c. Pages 20 and 21 of 32 contain the non-exempt and exempt pay schedules for Clark. These pages indicate that each schedule is based upon market data for similar positions in cooperatives. Explain in detail why data from the local market surveys, discussed on page 15 of 32, was not included as part of the schedule base.

d. Pages 25 through 29 of 32 contain graphs of comparative wage information on selected job classifications. Identify the organizations represented by KY2, KY6, KY13, KY14, and KY21.

11. Concerning the response to Item 13 of the August 12, 1992 Order:

a. Provide copies of Clark's policies concerning merit increases, promotion pay increases, and probationary increases.

b. Explain the basis for the merit increases granted to employee numbers 8581, 8392, and 5028.

12. Include in Item 13 was a request to provide copies of Exhibit 3, page 6 of 49, of the Application which showed the employee numbers. Clark did not provide these copies. Provide the requested copies of the application exhibit.

13. Concerning the response to Item 14 of the August 12, 1992 Order, provide a detail explanation stating the reason(s) that overtime hours increased between 1989 and 1990 and between 1990 and 1991.

14. Concerning the response to Item 16 of the August 12, 1992 Order:

a. Explain how the amount of life insurance provided for each eligible employee is determined.

b. Explain why the amount of life insurance provided for each eligible employee is in excess of \$50,000.

c. For each eligible employee, determine the annual premium for a \$50,000 life insurance policy.

d. Explain in detail why annual premiums for life insurance values in excess of \$50,000 should be included for rate-making purposes.

15. The response to Item 19 of the August 12, 1992 Order shows that all but one of Clark's CFC loans are priced under the fixed interest rate program. The Commission has received and processed several applications converting fixed interest rate loans to variable interest rates. These applications have included the results obtained from a computer model developed by CFC which performs an Internal Rate of Return ("IRR") analysis of the

possible conversion. Utilizing the CFC model, prepare an IRR analysis examining the possibility of converting CFC Loan Nos. 9008, 9010, 9014, and 9016 from fixed to variable interest rates. The analysis for each loan should include:

a. A scenario presenting the cash flows that are presently in effect until the loan reaches its repricing date.

b. A scenario presenting the cash flows that would result if the variable interest rate remained constant during the quarters remaining until the loan reaches its repricing date.

c. A scenario presenting the cash flows that would result if the variable interest rate began increasing in increments of .25 for each quarter, beginning with the third quarter, through the quarters remaining until the loan reaches its repricing date. For purposes of this analysis, Clark should assume the conversion would have been accomplished on September 1, 1992 and that the interest rate to be used is the variable interest rate available from CFC for conversions by the September 1 conversion date. The scenarios described in parts (b) and (c) should be prepared twice, once showing the impact on the cash flows if the required conversion fee were paid up-front and once if the required conversion fee were paid quarterly.

16. Concerning the response to Item 20 of the August 12, 1992 Order:

a. Explain the basis for assuming 50 percent of the accounts over 60 days and 100 percent of the accounts over 90 days

should make up the estimated balance for the accrual of uncollectible accounts.

b. Explain why Clark's accrual for uncollectible accounts is based on an aging of accounts receivable instead of being a percentage of operating revenues.

17. Concerning the response to Item 23 of the August 12, 1992 Order, provide a schedule showing the "per employee" paid portion on medical and dental coverage for the calendar years 1989 through 1991.

18. Concerning the response to Item 25 of the August 12, 1992 Order and Exhibit 3 of the Application, page 45 of 49, line 10:

a. State whether \$14.67 per hour is the total hourly rate for 2,080 hours per year.

b. If \$14.67 is not the total hourly wage, state the correct amount.

19. Concerning the response to Item 25(d) of the August 12, 1992 Order:

a. Identify all types of costs included in the \$31,697.

b. Identify all purposes of the 47,453 total miles driven.

c. Identify all types of vehicles included in the 47,453 total miles and the \$31,697 total transportation costs.

20. Concerning the response to Item 30 of the August 12, 1992 Order, provide the lender for loan AE6. If the loan represents an obligation other than an REA or CFC long-term loan, provide all the details, terms, and conditions of this loan.

21. Concerning the response to Item 31 of the August 12, 1992 Order:

a. State the total cost for the mapping project, for the total project and during the test year.

b. State the amount of the cost capitalized by Clark, during the test year and for the total project.

c. Indicate when the automated mapping project began and the completion date.

d. Explain why the test-year expense should be considered a recurring expense and included for rate-making purposes.

22. The response to Item 33 of the August 12, 1992 Order did not completely satisfy the request. In part (a), Clark was requested to explain in detail how it selected the providers of its legal, engineering, accounting, auditing, and other professional services. The response from Clark omitted this information for legal services and outside consultants. Provide the originally requested information.

23. Concerning the response to Item 38 of the August 12, 1992 Order:

a. In part (b) of this response, Clark describes the purpose of the member education dinners. Explain in detail why the expense of the member education dinners should be included for rate-making purposes when it appears their purpose could be accomplished through the annual meeting.

b. Provide copies of the workpapers and calculations prepared to calculate the original proposed adjustment to Account No. 930.1 of \$1,943.

24. The response to Item 39 of the August 12, 1992 Order did not adequately address the request. For a selected group of Account No. 930.2 transactions, Clark was requested to provide a detailed explanation of the purpose of the activity, the benefit to Clark and its members, whether the activity is of a recurring nature, and why the expense should be included for rate-making purposes. With the exception of the response to part (d), Clark did not provide a description of the benefit of the activity to it or its members nor did Clark explain why the expense should be included for rate-making purposes. Provide the originally requested information.

25. The response to Item 40 of the August 12, 1992 Order did not adequately address the request. For a selected group of professional service expenses, Clark was requested to explain why each transaction should be included for rate-making purposes. Clark did not provide this explanation for any of the listed expenses. Provide the originally requested information concerning the rate-making treatment of these expenses.

26. Concerning the response to Item 44 of the August 12, 1992 Order, for each principle employee listed, provide the following information:

a. The calendar year salary for each year from 1987 through 1991.

b. The percentage increase (or decrease) in the calendar year salary by year during the period.

c. If the calendar year salary does not match the amount reported in the corresponding year's annual report, include a detailed reconciliation of the difference.

27. In Item 45 of the August 12, 1992 Order, Clark was requested to provide the test-year expense for the educational opportunities it sponsored. For each of the opportunities listed below, provide the requested test-year expense or a reasonable estimate of the test-year expense:

- a. G.E.D. Testing Centers.
- b. Futures Desk Reference.
- c. Electrical Safety Programs and Energy Management Books.
- d. Kentucky Women in Rural Electrification Scholarship.
- e. Miss Clark REC Scholarship Program.
- f. Frankfort and Washington Youth Tours.

28. In Item 45 of the August 12, 1992 Order, Clark was requested to explain in detail how the educational opportunities it sponsored related to the provision of electric service and why the expense should be included for rate-making purposes. Clark did not provide these explanations for any of the educational opportunities it listed in the response. Provide the originally requested information.

29. The response to Item 12 of the Attorney General's ("AG") Request of August 12, 1992 indicated that Clark's line loss during

the test year ranged from a low of 559,996 Kwh to a high of 2,516,393 Kwh. The REA Borrower Statistical Profile, Exhibit 10 of the application, indicated that Clark's system loss was considered high.

a. State the test year line loss for Clark. Show all calculations.

b. Explain in detail why Clark's line loss is higher than the average REA Borrower.

c. Explain what steps Clark has undertaken to minimize its line loss.

30. Concerning the response to Item 34 of the AG's Request of August 12, 1992:

a. Indicate the account number(s) used to record the costs associated with ground source heat pumps.

b. Supply copies of the information supplied to potential purchasers of a ground source heat pump.

c. Describe the eligibility requirements for the ground source heat pump program.

d. List the various incentive payments available to a customer under the ground source heat pump program.

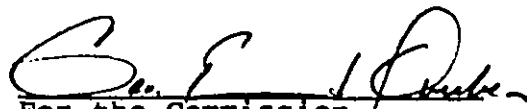
e. Explain why Clark has been purchasing ETS and Geothermal equipment for this program.

f. Provide a schedule showing a detailed breakdown of the costs classified as "Meetings and Expenses" and "Other". The schedule should include the vendor, a description of the transaction, the transaction date, and the amount of the

transaction. Individual transactions in the amount of \$200 or less do not need to be itemized.

Done at Frankfort, Kentucky, this 15th day of September, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director